

Message Text

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ACTION NEA-10

INFO OCT-01 AF-10 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05
H-01 INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02
SS-15 USIA-06 AGRE-00 AID-05 COME-00 EB-08 FRB-03
TRSE-00 XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01
ACDA-12 IO-13 STR-07 /140 W
-----116575 151048Z /10

R 150915Z MAR 78
FM AMEMBASSY RABAT
TO SECSTATE WASHDC 4833
INFO AMEMBASSY ALGIERS
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMEMBASSY NOUAKCHOTT
AMEMBASSY PARIS

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EO 11652: NA
TAGS: EEWT EMIN PDEV PEPR UR MO
SUBJECT: MOROCCAN-SOVIET RELATIONS: SIGNING OF THE MESKALA ACCORDS

REF A. MOSCOW 4258, B. RABAT 1469, C. RABAT 1358, D. RABAT 1179

1. SUMMARY: THE MARCH 9-12 VISIT OF MOROCCAN PRIME MINISTER OSMAN TO MOSCOW AND THE SIGNING OF LONG-TERM MOROCCAN-SOVIET ACCORDS ON DEVELOPMENT OF MOROCCO'S MESKALA PHOSPHATE DEPOSITS ELICITED A EUPHORIC MOROCCAN PRESS REACTION OVER THE "CONTRACT OF THE CENTURY." PRESS FORESEES MOROCCAN LEVERAGE WITH THE USSR AND LARGE ECONOMIC BENEFITS. HOWEVER, AN EXAMINATION OF PUBLISHED TECHNICAL DESCRIPTIONS OF THE ACCORDS DOES NOT SUPPORT SUCH OPTIMISM. OF PARTICULAR INTEREST TO US, THE MOROCCANS DID NOT OBTAIN SOVIET APPROVAL TO USE SOVIET DEVELOPMENT CREDITS FOR CAPITAL PURCHASES FROM HARD CURRENCY SOURCES. THE MOROCCANS FAILED TO SECURE SOVIET RECOGNITION OF THEIR SOVEREIGNTY IN THE
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SAHARA AND AN EXPECTED FISHING ACCORD MAY HAVE FOUNDERED ON THIS ISSUE. END SUMMARY.

2. POLITICAL AND ECONOMIC IMPACT: EXPANDING ON THEMES RAISED BY PRIME MINISTER OSMAN IN MOSCOW (REF A), PRO-GOVERNMENT PRESS HAS EMPHASIZED THE POLITICAL RAMIFICATIONS OF THE PHOSPHATE ACCORDS. ARGUING THAT THE EXHAUSTION OF SOVIET PHOSPHATE RESERVES BY THE

1990'S WILL MAKE MOROCCAN SUPPLIES INCREASINGLY VITAL FOR SOVIET AGRICULTURE, A KEY EDITORIAL CARRIED IN TWO SEMI-OFFICIAL DAILIES NOTES THAT MOROCCO HAS BECOME "AN IRREPLACEABLE PARTNER" FOR THE USSR AND THAT SOVIET-MOROCCAN RELATIONS HAVE TAKEN ON "A PRIVILEGED CHARACTER." THE CLEAR IMPLICATION IN THIS AND OTHER ARTICLES IS THAT MOROCCO HAS ACQUIRED POTENTIAL LEVERAGE TO ASSURE SOVIET NEUTRALITY ON THE SAHARA, NOT ONLY IN PUBLIC STATEMENTS BUT PERHAPS EVEN IN MILITARY AND OTHER AID TO ALGERIS.

3. IN CONTRAST TO THE HIGHLY OPTIMISTIC EDITORIAL FORECASTS, PRESS COVERAGE OF THE SPECIFICS OF THE ACCORD SHOW THAT IT IS ESSENTIALLY A DECLARATION OF PRINCIPLES WHOSE IMPLEMENTATION WILL BE CAREFULLY MONITORED ON A YEARLY BASIS. THE SPECIFICS (DESCRIBED BELOW) SUGGEST THAT THE SOVIETS WILL BE ABLE TO EXERT CONSIDERABLE LEVERAGE ON THE PROJECTS'S OVERALL DEVELOPMENT, PRODUCTS TO BE TRADED, AND THE SOURCING OF CAPITAL EQUIPMENT. SIGNIFICANTLY, NO OVERALL CREDIT OR TONNAGE FIGURES ARE MENTIONED IN THE ACCORD. DESPITE REPEATED EARLIER OCP (THE MOROCCAN PHOSPHATE MONOPOLY) ASSERTIONS TO THE CONTRARY, SOVIET CREDITS ARE ALSO CLEARLY NOT AVAILABLE FOR HARD-CURRENCY SOURCED CAPITAL PROCUREMENT. EQUALLY IMPORTANT, SIGNATURE OF THE MESKALA AGREEMENT WILL HAVE NO SIGNIFICANT EFFECT ON IMPROVING MOROCCO'S EXPORT EARNINGS DURING A PERIOD WHEN THE ECONOMY WILL BE TIGHTLY STRETCHED AND DEVELOPMENT PROGRAMS HEAVILY DEPENDENT ON INCREASED FOREIGN EXCHANGE EARNINGS. IN ADDITION, THE THIRTY YEAR COMMODITY TRADE PROTOCOL REMAINS INDEPENDENT OF THE EXISTING MOROCCAN-SOVIET TRADE AGREEMENT. LIMITED OFFICIAL USE

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MENT UNDER WHICH THE SOVIETS HAVE REGISTERED LARGE ANNUAL SURPLUSES SINCE THE EARLY 1970'S. THE MESKALA ACCORDS THUS APPARENTLY PROVIDE NO RELIEF FOR THIS IMBALANCE, THOUGH THE JOINT COMMUNIQUE ISSUED ON PM OSMAN'S DEPARTURE FROM THE USSR REFERS TO THE NEED FOR A NEW TRADE AGREEMENT.

4. POLITICAL DISAPPOINTMENTS: SIGNIFICANTLY, RABAT FAILED TO OBTAIN PUBLIC SOVIET SUPPORT, TACIT OR OVERT, FOR ITS CLAIM TO THE SAHARA. THE GOM REPORTEDLY HAD EARLIER HOPED FOR A HELPFUL COMMUNIQUE TO COUNTER THE JANUARY SOVIET-ALGERIAN JOINT STATEMENT WHICH CALLED FOR SELF-DETERMINATION IN THE SAHARA. WHILE THE PARTIES ACHIEVED A SUCCESSFUL PAPERING-OVER OF DIVERGENT VIEWS ON SADAT'S PEACE INITIATIVES, ON THE SAHARA, THE COMMUNIQUE OFFERED RABAT ONLY A VAGUELY "POSITIVE" BUT AMBIGUOUS REFERENCE TO RESPECT FOR "TERRITORIAL INTEGRITY." THE COMMUNIQUE FOCUSED LARGELY ON INTERNATIONAL ISSUES OF GREATER INTEREST TO THE USSR, INCLUDING DISARMAMENT, DETENTE AND NON-USE OF FORCE.

5. GOM HAD HOPED FOR TACIT SOVIET RECOGNITION OF MOROCCAN SOVEREIGNTY IN SAHARA WATERS THROUGH AGREEMENT WHILE OSMAN WAS IN MOSCOW ON A FISHING ACCORD. THIS ACCORD REPORTEDLY WOULD HAVE INCLUDED SOVIET AID IN DEVELOPING MOROCCAN FISHERIES AND

THE FORMATION OF JOINT FISHING ENTERPRISES. HOWEVER, CONTINUED
SOVIET "RESERVATIONS" APPARENTLY HAVE DELAYED SIGNATURE.

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6. ECONOMIC SUBSTANCE: LARGELY CONFIRMING EARLIER REPORTS
(REF D), SEMI-OFFICIAL DAILY LE MATIN SHED FURTHER LIGHT ON
SPECIFICS OF THE MESKALA AGREEMENT. IT IS BASICALLY A "FRAME-
WORK AGREEMENT" CONTAINING FIVE OPERATIVE PRINCIPLES:

-- THE FIRST WAIVES CUSTOMARY MOROCCAN INTERNATIONAL BIDDING
PROCEDURES BY REQUIRING THAT THE SOURCING OF CAPITAL PROCUREMENT
FOR EACH STAGE OF THE MESKALA DEVELOPMENT PROJECT BE MUTUALLY
AGREED UPON BY THE COMPETENT ENTITIES OF BOTH PARTIES ONCE THEY
HAVE AGREED TO IMPLEMENT THE TECHNICAL AND FINANCIAL PROPOSALS
PUT FORWARD BY THE SOVIETS.

-- THE SECOND SAFEGUARDS THE GOM'S RIGHT NOT TO ENTER INTO
ANY AGREEMENT WITH THE USSR, IF SPECIFICATIONS AND COSTS DO NOT
SATISFY THE MOROCCAN PRIME CONTRACTOR, THE OCP. WHERE THE OCP
IS DISSATISFIED, IT MAY UNDERTAKE ALL OR PART OF THE OPERATION
USING ITS OWN OR CONTRACTED RESOURCES. THIS PROVISION NEGATES
EARLIER SPECULATION THAT THE USSR WOULD PROVIDE CONVERTIBLE
CREDITS WHICH THE GOM COULD USE FOR CAPITAL SOURCING OF ITS
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CHOICE AND INDICATES THAT THE SOVIETS ARE TYING THEIR PROPOSALS TO SOVIET SOURCING FOR MOST, IF NOT ALL, CAPITAL PROCUREMENT TO BE PAID FOR BY SOVIET CREDITS.

-- THE THIRD COVERS THE FINANCING OF FEASIBILITY AND OTHER STUDIES UNDERTAKEN BY THE SOVIETS. IT PROVIDES THAT ALL DIRHAM EXPENDITURES ARE FOR THE ACCOUNT OF MOROCCO, WHILE ALL OTHER EXPENDITURES WILL BE COVERED BY THE SOVIET LONG-TERM CREDIT.

-- THE FOURTH CONCERNS A LONG TERM BARTER ARRANGEMENT IN WHICH MOROCCO WILL PROVIDE PHOSPHATE ROCK AND OTHER PHOSPHATIC PRODUCTS AND THE USSR WILL SUPPLY CHEMICALS, PRIMARY MATERIALS AND OTHER PRODUCTS.

-- THE FIFTH DEFINES THE MODALITIES OF MAINTAINING "EQUILIBRIUM" THROUGH EACH PHASE OF THE MESKALA PROJECT UNDERTAKING, I.E. PRODUCTS TO BE EXCHANGED AND SERVICES TO BE PERFORMED BY THE SOVIETS. LE MATIN NOTED THAT AGREEMENT WAS REACHED ON A RELATED PROVISION, WHICH HAD EARLIER PROVED TROUBLESOME, STATING THAT NEITHER COUNTRY WILL RE-EXPORT PRODUCTS COVERED IN THE AGREEMENT. LE MATIN ADDS THAT THIS PROVISION WILL NOT PREVENT MOROCCO FROM RE-EXPORTING PRODUCTS PROCESSED FROM SOVIET IMPORTS.

7. THREE OTHER PROTOCOLS WERE ALSO SIGNED, ACCORDING TO LE MATIN. THE FIRST, A TRADE PROTOCOL WHICH IMPLEMENTS THE FOURTH PRINCIPLE OF THE "FRAMEWORK AGREEMENT" (SEE ABOVE), IS ESSENTIALLY A THIRTY YEAR COMMERCIAL AGREEMENT IN WHICH PRODUCTS TO BE TRADED ARE CALCULATED IN CONVERTIBLE CURRENCIES. BOTH PARTIES ARE REQUIRED TO CONCLUDE SPECIFIC FIVE-YEAR AGREEMENTS AS WELL AS ANNUAL CONTRACTS WHICH DEFINE THE VOLUME AND VALUE OF PRODUCTS TO BE TRADED. THE 30 YEAR TRADE PROTOCOL IS SAID TO BE OUTSIDE OF BUT PARALLEL TO THE PREVIOUSLY EXISTING CLEARING AGREEMENT GOVERNING BILATERAL COMMERCIAL RELATIONS. THE FIRST APPLICATION OF THIS 30 YEAR PROTOCOL IS A SPECIAL AGREEMENT FOR 1978-80, COVERING THE TRADE OF MOROCCAN PHOSPHATE-BASE PRODUCTS FOR SOVIET NITROGEN-BASED CHEMICALS PRODUCTS. THIS SPECIAL PROTOCOL (THE SECOND OF LIMITED OFFICIAL USE

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THE SERIES) WILL SERVE LARGELY TO SPOT "IMPERFECTIONS" IN THE SYSTEM AND QUANTITIES TRADED WILL BE RELATIVELY SMALL.

8. FINALLY, A THIRD PROTOCOL WAS SIGNED, COVERING INITIAL FEASIBILITY AND OTHER STUDIES RELATED TO INITIAL DEVELOPMENT OF THE MESKALA DEPOSIT. KEY PROVISIONS INCLUDE \$20 MILLION FOR THE GOM FROM THE LARGER SOVIET LINE OF CREDIT, A 15-YEAR REPAYMENT PERIOD INCLUDING A THREE YEAR GRACE PERIOD AT 3.5 PERCENT AND REPAYMENT IN CONVERTIBLE CURRENCIES.

9. WHILE LE MATIN'S REPORTING OF THE FOUR AGREEMENTS SIGNED IN MOSCOW (I.E. THE FRAMEWORK AGREEMENT AND THE THREE

PROTOCOLS) IS ESSENTIALLY CORRECT AS WE UNDERSTAND THEM FROM OUR OTHER SOURCES, EMBASSY BELIEVES THAT THE MOST IMPORTANT PRINCIPLE RUNNING THROUGH ALL OF THEM IS THAT OF "EQUILIBRIUM." AT EACH PHASE OF THE IMPLEMENTATION OF THE AGREEMENT -- AND AT EACH SPECIFIED PERIOD REQUIRING THE BALANCING OF GOODS, SERVICES AND PAYMENTS RUNNING IN BOTH DIRECTIONS -- THERE MUST BE A DELIBERATE UNDERTAKING TO MAINTAIN APPROXIMATE EQUIVALENCE IN ALL ACCOUNTS. ON A PRACTICAL PLANE, THIS SEEMS TO NECESSITATE A) VERY CLOSE GOM INTRA-GOVERNMENTAL COORDINATION AND B) FLEXIBILITY AND CONTINUOUS ADJUSTMENT OF PRODUCTION AND DELIVERY SCHEDULES. THIS IS BECAUSE BOTH PARTIES TO THE AGREEMENT WILL OBVIOUSLY SEEK TO KEEP HARD CURRENCY CAPITAL MOVEMENTS IN EITHER DIRECTION TO THE ABSOLUTE MINIMUM.

10. THUS THE MESKALA AGREEMENT MAY END UP BEING NOTHING MORE THAN A SECOND BARTER AGREEMENT DENOMINATED IN DOLLAR TERMS, WHICH MAY PARTIALLY ACCOUNT FOR REFERENCE TO THE NEED FOR A NEW MOROCCAN/SOVIET TRADE AGREEMENT IN THE MOSCOW JOINT COMMUNIQUE.

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